FISCAL POLICIES MANUAL

CAPITAL ASSETS

PREFACE

Capital assets represent one of the largest assets of the state. Accordingly, the state utilizes a tracking system called FAS (Fixed Asset System) to provide control of and accountability for capital assets, to orderly monitor the physical condition of capital assets, and to gather auditable information for the preparation of a Comprehensive Annual Financial Report (CAFR).

This policy discusses certain accounting standards that may allow for more than one treatment under Generally Accepted Accounting Principles (GAAP) or additional information the committee felt would be helpful to agencies. Actual procedures and basic accounting are not discussed in this policy but are addressed in the FAS manual.

DEFINITIONS

Ancillary Costs: Costs in addition to purchase or construction costs, related to placing a capital asset into its intended state of operation. Normally, ancillary costs are included in the cost of a capital asset. However, minor ancillary costs may be expensed. Ancillary costs include the following:

1. For Buildings and Improvements Other Than Buildings - Professional fees of architects, attorneys, appraisers, financial advisors, and similar fees; damage claims; costs of fixtures permanently attached to a building; insurance premiums, interest expense (for enterprise fund assets), and related costs incurred during construction; and other expenditures/expenses necessary to place the asset into its intended state of operation.
2. For Land - Legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, site preparation costs, costs related to demolition of unwanted structures, and other expenditures/expenses necessary to place the asset into its intended state of operation.
3. For Machinery, Equipment, & Other - Transportation charges, installation costs, and any other normal and necessary expenditures/expenses required to place the asset into its intended state of operation.

4. For Infrastructure - Landscaping, curbs, gutters, sidewalks, noise abatement walls, and any other necessary expenditures/expenses to place the asset into its intended state of operation. (Note: For CAFR purposes, only the Idaho Transportation Department (ITD) will be using the Infrastructure class. All other agencies will report infrastructure-like assets under the Improvements Other Than Buildings class).

Approved Internal System: An agency system authorized by the DSA System's Administration that is a substitute for FAS. The authorized system must:

1. Provide for control of and accountability for the agency's inventoriable capital assets.
2. Ensure that all recorded capital assets are classified properly, accurately, and systematically.
3. Enable the agency to monitor the physical condition of those *capital assets*.
4. Provide information necessary for the state's CAFR.
5. Provide a written audit trail of transactions.
6. record current year and accumulated depreciation expense,
7. Meet LSO audit requirements.
8. Meet Department of Administration's Risk Management insurance requirements.

Building: Walled and roofed structure plus improvements that are permanently attached. This capital asset is recorded at cost including ancillary costs. Land costs are excluded. A mobile home on a permanent foundation is a building. Building improvements include items such as loading docks, heating and air-conditioning equipment, refrigeration equipment, and all other property permanently attached to the structure. Items not included are furniture, carpeting, fixtures, or other equipment that are not an integral part of the structure.

Capital Asset: Land the state owns regardless of cost or inventoriable (valued at $2,000 or more) personal property, and buildings that are owned by the state, virtually owned by the state as in the case of a capital lease, or are those for which the state is responsible (although ownership/title has not passed).

Responsibility may include managing, maintaining, or having possession of the asset the majority of the asset's remaining useful life. For land to be a capital asset title must pass.

Capital assets include buildings, improvements other than buildings, construction in progress, land, easements, infrastructure, machinery and equipment, capital leases, collections, and all other tangible and intangible assets, with a life expectancy of more than one year. Not included are depletable resources such as minerals or timber.

Capital Lease: Lease with contractual terms transferring to the state substantially all benefits and risks inherent in ownership of the property. Capital leases are capital assets.

One or more of the four following criteria must be met to qualify as a capital lease:

1. Ownership of the leased property is transferred to the state by the end of the lease.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75 percent or more of the estimated useful life of the leased property
4. The present value of the minimum lease payments (at inception of the lease), excluding executory costs (usually insurance, maintenance, and taxes, including any profit thereon), is 90 percent or more of the fair value of the leased property.

Capital Outlay: A budgetary term. Capital assets are normally purchased from the capital outlay budget, but not all purchases from the capital outlay budget are necessarily capitalized in the accounting records.

Capitalized Assets: All capital assets, excluding noncapitalized art and historical treasure *collections*, with a cost of at least $5,000 per asset and a life expectancy of greater than one year.

Collections: An accumulation of one or more materials that represent works of art, historical treasures, library or museum items, or similar assets. Collections may be capitalized or non-capitalized. Capitalize collections if the collection as a whole has a value of $5,000 or greater. **Exception:** The agency can elect to waive capitalization for collections that meet all of the following criteria:

1. The collection is held for public exhibition, education, or research to further public service rather than for financial gain.
2. The collection is protected, kept unencumbered, cared for, and preserved.
3. The collection is subject to an organizational policy requiring that the proceeds from the sales of collection items be used to acquire other items for collection.

NOTE: Collections already capitalized at June 30, 1999, should remain capitalized, even if they meet conditions for exemption from capitalization.

Construction in Progress: Capital asset reflecting the cost of construction work undertaken, but not yet completed that will result in a capitalized asset when finished.

Depletable Resources: Natural resources that are characterized by two main features: 1) the complete removal (consumption) of the asset, and 2) replacement of the asset only by an act of nature (petroleum, minerals, and timber).

Depreciation: Systematic allocation of the cost of a depreciable capitalized asset (less salvage value) over its estimated useful life.

Depreciable Capitalized Asset: Capitalized asset that decays or loses function with the passage of time. These assets are by their very nature exhaustible. Most capitalized assets are depreciable.

Land, easements, infrastructure reported under the modified approach, and noncapitalized art and historical treasures collections are considered inexhaustible and are not depreciated. Construction in progress is also not depreciated.

Donation: An asset received from an individual or a non-state entity, recorded at estimated fair market value at the date of acquisition.

Easement: A capital asset that reflects the purchased right to use land without ownership of the land. This right is considered permanent and inexhaustible. Easements are in perpetuity and transfer with the land if the land is sold.

Permanent easements are recorded as land. Generally, temporary easements are expensed when purchased. Temporary easements purchased as ancillary to placing a capitalized asset into its intended state of operation are capitalized.

Impairment: A significant, unexpected decline in the service utility of a capital asset. Generally, an impairment is permanent.

Improvements Other Than Buildings: Costs associated with permanent improvements that add value to land such as fences and retaining walls. The costs are not specifically identifiable to a particular state owned building. This asset class includes leasehold improvements and infrastructure-like assets.

Infrastructure: Capital assets that are roads, bridges, weigh stations, rest areas, or ports of entry owned or managed by the Idaho Transportation Department.

Infrastructure-like Asset: Long-lived capital assets that typically are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure-like assets include roads and bridges other than those owned or managed by the Idaho Transportation Department, tunnels, drainage systems, water and sewer systems, dams, parking lots, lighting systems, and similar assets. For tracking and CAFR reporting purposes, infrastructure-like assets are included with Improvements Other Than Buildings.

Intangible Asset: Capital assets with a life in excess of one year, lacking physical substance or representing a right granted by the government or a company. Examples include water rights, patents, trademarks, copyrights, and similar assets. Intangible assets are included with Machinery, Equipment, & Other. Mineral and timber rights are not included as intangibles.

Inventoriable Capital Asset: Capital assets of the state with a unit cost of at least $2,000, any item below $2,000 that is considered to be particularly vulnerable to loss, and all land regardless of cost.

Land: Capital assets that are real property, excluding buildings and depletable resources, with the title owned by the state. Land costs include ancillary costs.

Leasehold Improvement: Capital assets that represent major expenditures required to prepare leased premises for initial or continued use. Expenditures may include construction of walls, installation of heating/electrical systems, floors, plumbing, etc.

Repairs and renovations such as painting a wall, installing carpet, or general carpentry work, are considered normal operating expenditures.

For tracking and CAFR reporting purposes, Leasehold Improvements are included with Improvements Other Than Buildings.

Machinery, Equipment, & Other: Durable capital assets that are complete in and of themselves and are not permanently attached to a building or land. This asset category includes such items as lawnmowers, tractors, graders, vehicles, computers, copy machines, office furniture, and similar assets. Mobile homes not on a permanent foundation should be included in this category. Other assets included in this category include capitalized collections and intangibles.

Transferred Asset: An asset transferred from one fund or State of Idaho agency to another fund or State of Idaho agency.

POLICY

ASSET IDENTIFICATION

Immediately upon receipt and acceptance, all inventoriable capital assets of the state will be tagged, when practical, with a prenumbered State of Idaho Property Tag affixed in a readily identifiable location. Land and other assets that cannot reasonably be tagged are excluded from the tagging requirement; however, they are assigned a property number for tracking in the system.

CAPITAL ASSETS

Management of each state agency has the responsibility to record at a minimum all inventoriable capital assets. These assets should be systematically and accurately recorded and properly classified in either FAS or in an agency's approved internal system except for the following situations:

1. Primary control of items in major art, library, and museum collections may be through the agency's cataloging system.
2. Noncapitalized art and historical treasure collections, intangibles, and construction in progress may be tracked outside of FAS provided an agency's auditor has approved of the system being used to track these assets.

Per *Idaho Code 67-5746*, agency personal property is to be physically counted or verified at least annually. Personal property includes furniture, equipment, etc., that cost $2,000 or more per item, high pilferage items, and other sensitive items.

At the option of each agency's management, inventoriable capital assets may be defined and recorded at values less than $2,000.

CAPITALIZED ASSETS

Only capitalized assets are reported in the financial statements. (Non-capitalized art and historical treasure collections are disclosed in the notes to the financial statements.)

Assets below the $5,000 capitalization threshold are expensed. Assets $5,000 and above are generally capitalized by the agency with the following exceptions:

1. Construction in Progress through Department of Public Works:

   Agencies should not record construction in progress as a completed capital asset until the agency has received a Project Completion Statement that indicates to record the asset. Even though an agency may be occupying the constructed building, the construction project is carried as an asset of the Department of Administration until the Project Completion Statement is sent to the agency. (Note: Not all Project Completion Statements are for capital assets.)

   An exception to this policy is for joint Division of Public Works and college and university construction in progress projects. For these types of joint construction projects, the colleges and universities will report to the State Controllers Office through annual closing packages the amount that they are reporting for construction in progress in their financial statements to insure proper reporting in the CAFR.

2. Capital Leases:

   If the lease involves acquisition of more than one asset, each asset is to be capitalized if the present value of minimum lease payments, or fair market value, whichever is less, is $5,000 or more. Leases not meeting these criteria are treated as operating leases.

   Leases between state agencies are recorded as interfund operating expenditures.

   Note: If an asset under an operating lease is donated to the state at the conclusion of the lease, the asset should be recorded as a donation at current fair market value.

3. Collections previously capitalized must continue to be capitalized.

4. Additions to non-capitalized art and historical treasures collections are not capitalized regardless of dollar value. Newly acquired collections that qualify as a noncapitalized art and historical treasures collection do not have to be capitalized if it is not cost beneficial to determine the value. However, the preferred accounting treatment is to capitalize the collection if it is valued at $5,000 or more.

5. Computer software development or purchase costs are not capitalized, but are expensed regardless of cost.

6. Repairs and improvements (including remodels) to an existing capital asset that extend the useful life of the asset, or improve its capacity or efficiency, or significantly reduce operating costs should be capitalized if the costs are $5,000 or more. Costs under $5,000 are expensed and not tracked in the capital asset system.

   Routine repairs and maintenance that help an asset maintain the original useful life are expensed regardless of cost.

   Asbestos removal and underground storage tank removal should be expensed.

7. Library Collections – It is recommended that agencies apply the capitalization threshold ($5,000) to individual items rather than to whole library collections for most in-house agency library resource materials.

   Exceptions to this policy would be for major library collections such as the State Library Collection, State Law Library, and library collections at the colleges and universities that do not meet the art and historical treasure exemption. These major library collections will assume a 10-year useful life for all acquisitions within a given year. The library resources acquired in a given year are capitalized as a single unit and depreciated over ten years using the straight-line method. The library records system maintains detailed records and reconciling the actual units on hand with the amount recorded in the financial statements is not required.

8. Currently mineral and timber rights are not capitalized regardless of dollar value. As clearer accounting guidance develops, the state may elect to capitalize these assets.

DEPRECIATION AND AMORTIZATION

The state depreciates all depreciable capitalized assets. Depreciation expense is recorded as a direct expense of the fund and function (budget unit). Except for collections, depreciation for all depreciable capitalized assets is calculated and recorded using the straight-line method:

$$\text{Depreciation} = \frac{\text{Cost - Salvage Value}}{\text{Useful Life}}$$

The following ranges are available for asset useful life:

Buildings and Improvements to Buildings	3 - 50 years
Improvements Other Than Buildings	5 - 50 years
Machinery, Equipment, & Other	3 - 40 years
Infrastructure (ITD Bridges)	75 years
Intangibles	3 - 40 years

As part of the annual inventory, it is recommended that asset useful lives be reviewed and changed as may be appropriate.

SETTING USEFUL LIFE FOR AN IMPROVEMENT

When entering a useful life for an improvement, the useful life of the original asset needs to be considered. The general rule is that the improvement is depreciated over the shorter of the improvement's useful life or the original asset's remaining useful life.

It may be necessary to increase the original asset's useful life if it is anticipated that the improvement will extend the useful life of the original asset. If the original asset is at the maximum of the range and accordingly cannot be changed, record the improvement at its anticipated useful life.

DEPRECIATING COLLECTIONS

Major library collections and other capitalized collections with more than one item are depreciated using either the composite or group method.

CAPITALIZED COLLECTIONS

Collections containing only one item are depreciated using the straight-line method. To avoid depreciating a work of art or historical treasure that is appreciating, set the salvage value equal to the historical cost. If the situation changes and the work of art or historical treasure loses value, change the salvage amount accordingly.

AMORTIZATION

Intangibles are amortized using the straight-line method with an asset life no greater than 40 years.

DISPOSITIONS

The procedures and guidelines set forth by the State Board of Examiners are to be followed when an inventoriable capital asset is sold, scrapped, or otherwise disposed from inventory.

When a capital asset is replaced or otherwise disposed, the original cost and accumulated depreciation are to be removed from the books.

If the original cost of the asset is unknown, any reasonable method may be used to record the disposition. Reasonable methods can include not recording any cost or recording an estimated amount.

For example:	A heating, venting, and air conditioning (HVAC) system was included in the building cost when originally built. The original HVAC system is removed and a new one added that improves efficiency.
Methods to use:	Do Not Record – Use this method only if the asset has been fully or close-to-fully depreciated so that the remaining amount is immaterial. The record of the old asset is kept and the disposition is not recorded.
	Record an Estimated Amount – The cost of the new HVAC system is deflated to the year of acquisition of the original HVAC system through the use of the Consumer Price Index (CPI). Then that estimated amount and the related accumulated depreciation are removed from the books. Contact the SCO’s Help Line (332-8827) for assistance.

Sale of Portions of Noncapitalized Art and Historical Treasure Collections: It is the state’s policy that proceeds from the sale of items in a noncapitalized art and historical treasure collection shall be used to purchase other items for the collection or for conservation of the collection.

ADMINISTRATIVE PROCEDURES

CAPITAL ASSET INVENTORY SYSTEMS

Agency capital asset record systems shall contain, at a minimum, the following data elements:

1. Agency Name and Code Number - The agency name and three-digit agency code number.
2. In-Service Date - The date the agency takes title to or places the capital asset in service.
3. Asset Class - General category that specific class codes will roll up to, such as land, buildings, improvements other than buildings, etc.
4. Class Code - A code used to categorize the type of capital asset, such as a shed.
5. Cost - The total cost (value) assigned to the capital asset.
6. Accumulated Depreciation - The total depreciation expense incurred to date for the capital asset.
7. Depreciation Expense - The total depreciation expense incurred fiscal-year-to-date for the capital asset.
8. Budget Unit - The budget unit or units associated with the acquisition of the asset.
9. Disposal Date - The date the agency officially relinquishes the capital asset.
10. Fund Number - Record the number of the fund utilizing/purchasing the capital asset.

11. Inventory Property Tag Number - The serial number on the State of Idaho property tag affixed to the capital asset. This is not required for land, buildings, and other capital assets that cannot reasonably be tagged; however an identifying number will be needed.
12. Location - An identification code to indicate where the capital asset is located (physical address for real property).
13. Acquisition Method - Describes how the property was obtained.
14. Insurance Indicator - Describes the type of insurance that the agency has on the asset.
15. Ownership Status - System must be able to differentiate legal ownership as follows:
    - State owned
    - Combined ownership by the state and another entity
    - Endowment land
    - Federally owned (responsibility for asset stays with the federal government)
    - State owned possible federal claim
    - Non-state entity owned but the state uses and has responsibility for the asset. For example, assets purchased with grant funds.
    - Leased
    - Non-state entity owned (responsibility rests with the entity)
    - Other state-agency owned
16. Replacement Value - The cost to replace the asset in today’s market.
17. Quantity - The physical count of inventoriable items, as follows:
    - Equipment: whole units
    - Buildings: square feet
    - Land: rounded to the nearest whole acre or square foot (except shoreland)
    - Shoreland: waterfront footage - rounded to the nearest whole foot
    - Construction in Progress: number of capital projects under construction
18. Useful Life - The estimated number of years of use to be received from the *capital asset*. Not required for nondepreciable capital assets.
19. Condition Code - Describes the condition of the property.
20. County Code - The county where the land or building is located.
21. Depreciation Date - Date depreciation was last calculated and processed.

We recommend that the agency capital asset record system include the following data elements for personal property:

- Serial Number - The sequential identification number assigned by the manufacturer (not the model number).
- Description - A word explanation of what the capital asset is.
- Manufacturer - Either the name of the manufacturer or the commonly accepted trade name.
- Model year- for automobiles.
- Order Number - The number of the purchase order used for acquisition of the capital asset.

We recommend that the agency capital asset record system include the following data elements for real property:

- Block Number - A legal description of a specific real property.
- Parcel - A legal description of a specific real property.
- Tract - A legal description of a specific real property.
- Easement- Defines the type of easements attached to a real property.
- Lot Number - A legal description of specific real property.
- Construction Code - Defines the building construction type based on information from Risk Management.
- Zip Code - The zip code associated with the building address.